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FOREIGN SERVICE DESPATCH

685
DESP. NO.

790D001-1348

FROM : AMEMBASSY, GUATEMALA

TO : THE DEPARTMENT OF STATE, WASHINGTON.

DATE February 5, 1953

REF : --

FEB 7 1953

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		OTHER AG COMM FRB TAR TR XMB ARMY NAVY AIR OSD CIA

SUBJECT: WEEKA NO. 6 - ECONOMIC SECTION

DECLASSIFICATION DATE 11/30/78
PER Ehrman OFFICE ARA
EADRC EOI CASE NO. 740332

SECTION II

Summary

Business trends in January showed little change from the depressed May-December level. January sales in the basic agricultural and hardware lines continued depressed due to the general uncertainty and the Government's failure to take firm action on the recent illegal land seizures. Nevertheless, consumer income continued high as evidenced by an increase over January 1952 in department and appliance store volume which was due to larger cash rather than credit sales.

The Special Session of Congress called on January 23 showed little progress in advancing Government bills for economic development. The "luxury tax" bill, the first item on the agenda, was returned to committee due to protests by clothing manufacturers supported by the Ministry of Economy, and the charter for the PETENSA Corporation to exploit the northern hardwood resources was not even discussed as the Executive delayed its presentation following severe press criticism of foreign participation in the project. Wide publicity was given to the Government's still uncompleted plans for a National Agrarian Bank to provide long-term credits to Agrarian Reform Law beneficiaries, a reported reorganization of the strategic but slow-moving Department of Highways to allow letting of future construction contracts to private firms, and an announcement that the Atlantic Highway would soon be broken through to Puerto Barrios, though an American engineer stated privately that a large part of the half-finished work in that area would be washed out during the rainy season which begins in May.

Action Assigned to [illegible]
Action Taken [illegible]
2-18-53
Date of Action IAD
Initials EHMiller/dkp
(2/5/53) REPORTER
Name of Officer [illegible]

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MAY 11 1953

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Economic Development

Passage of the "luxury tax" bill, which would help finance the Government's $20,000,000 economic development plan, was delayed midway through its fourth and final reading in Congress by being sent back to committee because of protests by clothing manufacturers over the inclusion of a duty increase on rayon cloth. The manufacturers presented figures showing that the higher cost of yard goods would raise their cost of production for a dozen rayon slips to $46.04, whereas the same dozen slips could be bought in the United States for $15.00 and placed in Guatemala for $48.60. They said that this differential would make it impossible for them to compete because of the consumers' natural preference for imported goods and would force them to close down. The Ministry of Economy supported this argument in a memorandum to Congress and a motion by several deputies sent the bill back to the Treasury Commission for further discussion. The Commission announced that it would hear all interested parties, including the textile manufacturers who favor higher protection and claim that they can supply the entire domestic demand for rayon cloth.

The independent press took a leaf from the Government's book this week when it featured arguments with nationalistic overtones in criticizing plans for the PETENSA Corporation, whose preliminary charter was made public last week (WEEKA No. 5). While the official Diario de Centro America defended the Government's partnership with the New World Hardwood Corporation of New York on the grounds that necessary technical and commercial skills were unavailable in Guatemala, the independent El Imparcial said that there were many Guatemalans who knew the lumber business and could have supplied the $20,000 of private capital and asked why a foreign firm should be permitted to take its estimated profits of $840,000 per year out of the country. La Hora used the same line and added that it would be the Government which would have to guarantee the projected $5,800,000 loan to PETENSA, hence the Government should set up its own corporation and then hire the technicians and salesmen necessary. At the end of the week it was announced that signing of the contract, scheduled for this week, had been postponed.

Agrarian Bank

The Executive's project for a National Agrarian Bank (BNA) to supply long-term credits to farm workers acquiring land under the Agrarian Reform Law and to other small

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farmers was nearly completed at Cabinet meetings this week and will soon be presented to Congress, according to an announcement by Minister of Economy Roberto FANJUL. The Bank would have an initial capital of $5,250,000, of which $5,000,000 would be provided through sale of public bonds and the remainder from Government funds on deposit in the Bank of Guatemala. However, Deputy Emilio ZEA Gonzalez, head of the Economic Commission of Congress, said that although he had not seen the proposed bill the initial capitalization should not be less than $10,000,000. Meanwhile the press reported that pending the opening of the BNA the National Mortgage Bank would grant credits of $57,000 to the workers at Chocolá, scheduled to be the first property of the National Farms organization on which workers will actually take possession of the land.

Highways

The press reported this week that as of July 1, 1953 the Government's Department of Highways would be completely reorganized with the idea of hiring private contractors for road construction. The Highway Department, which does all construction and maintenance work, has been consistently behind schedule on its projects and the importance which the Government attaches to this work may have led to the reorganization decision. However, the new plan would mean a drastic reduction in personnel and labor pressures could prevent or delay its execution.

Major Carlos PAZ Tejada, Chief of the Atlantic Highway project, announced that four kilometers per week were being graded and drained under the 100-day intensive work program which began January 1 and that very shortly the road would be broken through to Puerto Barrios. An American engineer who visited the project last week stated privately that work was progressing very satisfactorily and that there was no reason to doubt Major Paz' statement. However, he said that most of the construction near Puerto Barrios could not be properly drained and reinforced before the rainy season begins in May and would be largely washed out before work could be renewed at the end of the year.

Rudolf E. Schoenfeld

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FOREIGN SERVICE DESPATCH

714.00(W)/2-1253

FROM: AMEMBASSY GUATEMALA — 702 DESP. NO. — Action Taken

TO: THE DEPARTMENT OF STATE, WASHINGTON. — February 12, 1953

F — F790004-1340 — Date of Action 2-25-53

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Name of Officer

SUBJECT: Joint Weeka No. 7 for State, Army and Air Departments from SAA Section I.

SUMMARY

In a blow certain to undermine the Guatemalan Judiciary, the Guatemalan Congress, with the evident concurrence of President ARBENZ early on February 6 removed all except one of the members of the Supreme Court for "manifest incapacity" because of their action in accepting a petition for an injunction against the President in the test Agrarian Reform case brought by Sr. Ernesto LEAL Pérez, a local planter who claimed that the Agrarian Reform authorities had acted improperly in expropriating his land. The Court had in effect set aside Article 98 of the Agrarian Reform Law forbidding any non-Agrarian Reform authority to accept appeals from the acts of the Executive branch's Agrarian Reform officials.

This action by the Congress opened the way for the unhampered implementation of the Agrarian Reform Law and appeared certain to render the Judiciary, both civil and labor, more responsive to partisan political pressures. Though this development gave rise to much discussion and many protests, opposition groups were uncertain and divided about tactics and counter-measures. Eventually a protest demonstration of some 4,000 people took place in front of the National Palace on February 9 and ended in vandalism by uncontrolled elements with the police arresting about 60 persons and firing into the crowd, killing one and wounding four. The city afterwards quickly returned outwardly to normal but the underlying tension remained.

During the week, Colonel Enrique PARINELLO, Chief of Staff, issued a statement denying that any Guatemalan officer had been designated to participate in the formulation of a military plan to control Communism which the General Staffs of the other Central American States are rumored in the press to be preparing for presentation at the May 2 ODECA meeting.

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REPORTER

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LWC

FADRC FOI CASE NO. 740332

Desp. No. 702
From Guatemala

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Encl. No.
Desp. No.
From

DOMESTIC AFFAIRS 7800001-1341

The sequence of events leading to this week's turbulence began on February 3 when the Guatemalan Supreme Court granted a temporary injunction against President Arbenz in the Agrarian Reform case of Sr. Ernesto LEAL Pérez (Weeka No. 6) thus in effect setting aside Article 98 of the Agrarian Reform Law, which prohibits any non-agrarian reform authority from accepting appeals against actions taken in fulfillment of the law by agrarian reform officials. The Administration and its supporters held this provision indispensable to carrying out the agrarian reform lest landlords slow up or block expropriations by long drawn-out court proceedings, but others claimed that barring recourse to the Judicial branch violated constitutional guarantees that citizens could appeal to the courts for an injunction against abuses of the authorities. In the test case, the court by a 4-1 vote ruled against the Executive, deciding to consider Sr. Leal Pérez' petition and deciding by a 3-2 vote to grant a temporary injunction to Sr. Leal Pérez and to order the President to show cause within twenty-four hours why the expropriation order should not be vacated.

On February 5 President Arbenz notified the Court that the Executive would not appear to contest the temporary injunction and that he was referring the case to Congress to determine whether the Supreme Court could accept a petition for unjunction in Agrarian Reform matters.

Congress met on the evening of the 5th and engaged in a heated debate in which leftist and Communist Deputies took leading roles and shortly after midnight it voted 41-7 to remove Chief Justice Arturo HERRENGER and three Associate Justices, Sres. Francisco CARRILLO Mangaña, Justo MORALES and José Vicente RODRIGUEZ, on the grounds of "ignorance of the law which showed unfitness and manifest incapacity for administering justice". Dr. López Durón, the only Justice to vote against accepting Sr. Leal Pérez' appeal was not removed.

The hasty and unconsidered manner in which the Congress and the Executive proceeded was reflected in the subsequent difficulties in filling the four vacancies. In the early hours of February 6 Congress chose Marcial MENDEZ Montenegro (PAR), Attorney General and Minister of Interior in President AREVALO's Cabinet, as Chief Justice, and as Associate Justices, Alfonso BAUER Paiz (PRG), Minister of Economy in the Arévalo Cabinet, Ricardo CHAVES Nachmann (PAR), ex-Minister of Interior in President Arbenz' Cabinet, and Virgilio ZAPATA Mendía (RN), a member of the National Electoral Board and a leader of the pro-Communist wing of this party. It afterwards was recognized

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that Bauer Paiz was too young to qualify constitutionally and José Arturo RUANO Mejía was elected as a replacement for him, but declined to serve. After Chaves Nachmann had taken the oath, it developed that he had not practiced long enough. As a consequence, a couple of days later, Alberto PAZ Y PAZ and Francisco DELGADILLO Zamora were elected, but it now transpires that the former also has declined to serve and the Court thus still has one vacancy.

The dismissal of the Supreme Court Justices caused widespread apprehension and discussion but dissatisfied elements showed marked uncertainty about tactics or counter measures. The market womens' anti-Communist organization held a small demonstration on February 6 but the major anti-Communist organizations, the CCN and the PUA, satisfied themselves with issuing protests. Among the Judiciary, several judges of the lower courts acting individually resigned in the following days, but the judges in Guatemala City voted two to one against going on strike. Some lawyers closed their offices in protest, but the University students, who often spark disturbances here, were divided.

Elements supporting the regime were, in contrast, more decisive and active. On February 7 Victor Manuel GUTIERREZ, Secretary General of the national labor federation CGTG and Sr. Leonardo CASTILLO Flores, Secretary General of the national agricultural federation CNUG, led an improvised demonstration of several hundreds to the National Palace to express support of the Administration. The demonstration was reviewed from a balcony by President Arbenz who, flanked by his Cabinet and the Chief of the Armed Forces, told the crowd: "Come what may and cost what it may, we will carry out the Agrarian Reform to its fruitful end...I warn that if enemies go beyond the law and wish to provoke civil war, we shall give them a fitting reply".

Two days later, some 4,000 persons gathered in a disorganized protest demonstration in front of the National Palace, burned copies of the Constitution, and made speeches attacking the Government. As the crowd was breaking up, a number of persons began to throw stones at the windows of the National Palace, break the electric lamps in the park and commit other acts of vandalism. The police opened fire to complete the dispersal, aiming most shots into the air but a few against the demonstrators. The press subsequently reported one killed, four injured and 57 arrested on charges of public disorder.

The excitement occasioned by theseevents began to subside the following day although a considerable underlying tension continues. Sr. Augusto CHARNAUD MacDonald, Minister of Interior, and Police Headquarters, have warned that further unauthorized

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demonstrations will not be tolerated.

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MILITARY

In a statement to the press on February 7 Colonel Enrique PARINELLO, Chief of the Army Staff denied that any Guatemalan officer had been invited or designated to attend rumored discussions among the General Staffs of the other Central American countries concerning the introduction of a military plan to combat Communism at the May 2 meeting of the Organization of Central American States (ODECA) (Weeka No. 6). Colonel Sánchez also denied knowledge of the plan and Dr. Raúl OSEGUEDA, the Foreign Minister, also told reporters that Guatemala, the host country to the ODECA meeting, had not been notified of such a proposal.

For the Ambassador:

William L. Krieg
Counselor of Embassy

Contributor:

Colonel A.E. McCormic, Army Attaché

Copies: Other C. A. Missions, and routine

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